

pected to commence in October of this year. If test drilling proves the presence of hydrocarbons in the impressive structures outlined by previous seismic and geological work, an aggressive development drilling program will be undertaken. This development program will be financed by interest free loans from natural gas companies in exchange for a call on the gas at rates not less than the going contracts in the area.

Mackenzie River Valley, N.W.T.

A portable drilling rig is currently being barged up the Mackenzie River to the mouth of the Keele River, where it will be transported by helicopter to the drilling site of Decalta Dome LR1 et al Keele 0-62 (62° 21' N, 124° 57' W). Petrol and associates will pay 40% of the costs of this well and will earn a 25% interest in approximately 55,000 acres. Drilling will commence in September.

Indonesia

Drilling is expected to commence on the Suban Djirgi Technical Assistance Contract area in Indonesia in November of this year. Following a seismic program, two initial well locations have been selected. Petrol's interest in this contract area of 67,800 acres is 3%.

Other Foreign

In other international areas, negotiations continue for concessions on and offshore Peru, Kenya and Portugal. A 10,000 kilometer seismic program has been completed offshore Peru.

AR13

STATEMENT OF INCOME

(unaudited)

	First Half	
	1973	1972
Income		
Net oil and gas sales	\$ 634,000	\$ 563,000
Interest income	8,000	30,000
	<u>642,000</u>	<u>593,000</u>
Cash Expenses		
Production	179,000	137,000
General and administrative	40,000	40,000
Interest	12,000	22,000
	<u>231,000</u>	<u>199,000</u>
Cash flow from operations .	411,000	394,000
Depreciation and depletion.	201,000	144,000
Net income	<u>\$ 210,000</u>	<u>\$ 250,000</u>
Cash Flow per common share	10.3¢	9.9¢
Net Income per common share	5.3¢	6.3¢

SOURCE AND APPLICATION OF FUNDS

(unaudited)

	First Half	
	1973	1972
Source of funds		
Cash flow from operations	\$ 411,000	\$ 394,000
Application of Funds		
Land acquisition and rentals	1,378,000	85,000
Geological and geophysical	59,000	105,000
Non-productive drilling ..	44,000	76,000
Productive drilling and equipment	637,000	130,000
	<u>2,118,000</u>	<u>396,000</u>
Retirement of production payments	288,000	239,000
	<u>2,406,000</u>	<u>635,000</u>
Decrease in working capital	(1,995,000)	(241,000)
Working capital at beginning of period	590,000	1,212,000
Working capital (deficiency) at end of period	<u>\$(1,405,000)</u>	<u>\$ 971,000</u>
Production		
Oil and condensate - net barrels	173,000	171,900
Natural gas - net MCF ...	400,000	462,000

PETROL

FIRST HALF INTERIM REPORT

1973

THE PETROL OIL AND GAS
COMPANY LIMITED

630 SIXTH AVENUE S.W., CALGARY
ALBERTA, CANADA T2P 0P2

TO THE SHAREHOLDERS

FINANCIAL

First Half 1973

Net income for the first half of 1973 was \$210,000 (5.3c per share) compared with \$250,000 (6.3c per share) for the same period in 1972. Cash flow amounted to \$411,000 (10.3c per share), a 4.3% increase over the first half of last year (\$394,000 or 9.9c per share).

Revenue from oil and gas sales amounted to \$634,000, an increase of \$71,000 (12.5%) over last year. Net oil sales rose \$57,000 (11.5%) as a result of higher prices (\$54,000) and higher volumes (\$3,000). Natural gas sales were down 10.8% (\$52,000 vs. \$58,000) as some production was shut-in pending completion of process facilities. Natural gas liquid sales amounted to \$24,000 compared with \$6,000 last year, reflecting the acquisition of additional interests in Turner Valley. Interest and other income declined from \$30,000 to \$8,000. Total cash expenses for the two periods were \$231,000 and \$199,000 respectively. Non-cash charges for depreciation and depletion increased from \$144,000 to \$201,000, primarily as a result of new investments in plant and equipment.

Working capital was reduced by close to \$2 million, due primarily to the acquisition of varying interests in 11 blocks at the Texas offshore sale on June 19th, the purchase of other properties in the United States earlier in the year and the Company's share of the construction costs of a new gas plant at Simonette. The Company will utilize its increasing cash flow and current lines of credit to provide sufficient working capital to enable it to pursue an active exploration and development program.

PRODUCTION

Net production of crude oil and condensate totalled 173,000 barrels, an increase of 1,100 barrels over the first half of 1972. Natural gas deliveries declined by 13.4% from 462,000 mcf to 400,000 mcf. Some of the Company's Alberta gas production was shut-in pending construction or modification of gas plant facilities.

PRICE INCREASES

Crude Oil

The price of Western Canada crude continues to improve and reflect the direct impact of the pricing structure in the Middle East and the strong demand from the United States for Canadian oil. In January this year, the price per barrel of crude increased by 20 cents and in May, a further increase of 25 cents. On August 1st the price was again increased by 40 cents per barrel. Revenue gains derived from these price increases have been partially offset by higher royalty rates in Alberta, British Columbia and Saskatchewan. In Alberta, the chief source of Petrol's oil production, the Company's Crown Royalty rate is expected to increase by approximately 5 percentage points. The royalty increase was made retro-active to January, 1973 and has been included in the accompanying financial and production data.

Natural Gas

The Company has completed negotiations with Alberta and Southern Gas Co. Limited relating to price increases for its free and casinghead gas production from the Simonette field in Alberta. Effective July 1, 1973 the average basic price for gas delivered from this field will

be increased from 14.6¢ to 24.0¢ per mcf. The new gas prices are subject to redetermination on July 1, 1974 and every two years thereafter. Your Company is currently endeavoring to negotiate similar contract amendments from TransCanada Pipelines Limited in respect to other gas contracts.

The Turner Valley field is a major source of Petrol's Alberta gas production. At present, the Company receives 13¢ per mcf (only 8¢ after processing) for its residue gas. It is possible that the Alberta Government's policy on natural gas expected to be announced in September, may result in an improvement in this low price structure.

EXPLORATION AND DEVELOPMENT

Simonette

A second gas plant at the Simonette field in Alberta is now on stream. As indicated in the Company's last annual report, the additional solution gas processing capacity will permit a doubling of oil and gas production from the Simonette D₃ field. To maintain reservoir pressures at higher withdrawal rates, a water injection plant is being constructed; this plant is expected to be in operation early in 1974.

Texas Offshore

On June 19, 1973, Decalta International Corporation and its associates bid successfully on 11 blocks comprising 62,000 acres at the federal offshore oil and gas lease sale. Petrol has a 15% share interest in Decalta International. Decalta's share of the bids amounted to \$7.2 million and its interests in the 11 blocks vary from 1.04% to 2.60%. Test well drilling locations in each block are now being selected by the participating companies; drilling is ex-

The PETROL Oil and Gas Company Limited

File



Annual Report 1973

The PETROL Oil and Gas Company Limited

Annual Meeting

The annual meeting of the shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario on April 24, 1974 at 2:00 p.m., local time. A formal notice of the meeting together with a proxy form and information circular, is enclosed with this report.

Officers and Directors

C. S. Lee

Calgary, Alberta

President of the Company

Chairman of Western Decalta Petroleum Limited

Director of Hudson Bay Mining and Smelting Co., Limited

A. H. Ross

Calgary, Alberta

Vice-President of the Company

President of Western Decalta Petroleum Limited

President of Consolidated West Petroleum Limited

L. G. Elhatton

Calgary, Alberta

Secretary-Treasurer of the Company

Secretary of Western Decalta Petroleum Limited

H. J. Howard

Calgary, Alberta

Retired Executive

H. A. McKenzie

Toronto, Ontario

President of Hudson Bay Mining and Smelting Co., Limited

Director of Anglo American Corporation of Canada Limited

F. R. Matthews, Q.C.

Calgary, Alberta

Partner of MacKimmie Matthews

Barristers and Solicitors

R. Tetrault

Calgary, Alberta

President of Alberta White Trucks (Calgary) Limited

Summary of the Year 1973

FINANCIAL	1973	1972
Gross income	\$1,614,000	\$1,232,000
Cash flow	1,053,000	808,000
Per share—¢	26.3	20.2
Depreciation and depletion ..	433,000	318,000
Equity in earnings of affiliated company	6,000	—
Net Income	626,000	490,000
Per share—¢	15.7	12.3
Working capital (deficiency) .	(1,047,000)	590,000
Exploration and development .	\$1,416,000	\$ 947,000
Outstanding shares	3,995,000	3,995,000
OPERATING		
Oil production—net barrels ...	401,000	351,000
Natural gas liquids—net barrels	26,000	30,000
Natural gas sales—net mcf ...	764,000	858,000
Reserves—proven and probable additional		
Oil—gross barrels	8,657,000	9,252,000
Natural gas liquids— gross barrels	67,000	70,000
Natural gas—gross mcf	32,000,000	29,300,000
Sulphur—long tons	86,000	89,000
Land Holdings		
Gross acres	11,897,000	11,659,000
Net acres	450,000	437,000

President's Letter

Petrol's operating results in 1973 showed substantial improvement in nearly all phases of its activities. Major investments incurred in 1973, such as the expanded gas processing facilities at Simonette, will further enhance the Company's revenues in 1974. Petrol's equity investment of \$1,365,000 in Decalta International Corporation will permit the Company to participate in the international oil scene. Decalta International owns producing and exploration properties in the United States which were acquired from U. S. Natural Resources, Inc. and is engaged in exploration activities in the offshore areas of Texas and Guatemala and onshore in Indonesia. These activities are more fully described in the Exploration Section of this report.

Consolidated net income in 1973 was \$626,000, a gain of 27.8% over net income of \$490,000 in 1972. Earnings per common share amounted to 15.7¢ as compared with 12.3¢ earned in 1972.

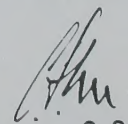
Cash flow from operations amounted to \$1,053,000, a 30.3% increase over 1972 at \$808,000. Cash flow per share for the comparative years was 26.3¢ and 20.2¢ respectively.

In addition to the \$1,365,000 invested in Decalta International, your Company's expenditures for development and exploration totalled \$1,416,000 in 1973 (\$947,000 in 1972).

During 1973, the Canadian petroleum industry experienced a period of uncertainty — extensive governmental debates as to future product prices and new provincial government legislation and regulations dealing with royalty structures and marketing, were introduced. The Canadian federal and provincial governments now appear to have resolved some of their differences with respect to matters affecting the oil industry. Effective April 1, 1974, the average price for Canadian crude has been set at \$6.50 per barrel. The Alberta government has determined its royalty structures both on crude oil and natural gas and while the royalty rates may be higher than those desired by the industry, at least some of the ground rules have now been ascertained.

On behalf of the Board, I would like to extend our sincere thanks for the loyalty and enthusiasm shown by those who have contributed to Petrol's continuing growth record.

April 1, 1974
Calgary, Alberta



C. S. LEE
President

Production

Net production of crude oil and condensate during 1973 totalled 401,000 barrels, an increase of 14.1% over the 351,000 barrels last year. This increase was primarily derived from higher production volumes from the Company's properties at Simonette and the Pembina Belly River B pool in Alberta.

The Company's deliveries of natural gas in 1973 totalled 764 million cubic feet compared with 858 million cubic feet last year. The 11% decline occurred in Alberta where some gas production was shut-in pending construction or modification of gas plant facilities. These events also lowered natural gas liquid recoveries from 30,000 barrels in 1972 to 26,000 barrels in 1973.

During 1973, Petrol received an average price of \$3.53 per barrel for its crude oil, \$1.95 per barrel for its natural gas liquids and 16.7¢ per mcf for its gas. Recently announced price increases for Canadian crude oil and current price re-negotiations covering the Company's major sources of gas production, i.e., Simonette and Turner Valley will have a beneficial effect on Petrol's future revenues.

Simonette

The second gas processing plant at Simonette was completed on September 1, 1973 and suffered the usual start up problems during the last quarter of the year. However, in January and February of 1974, the operating capacity of the new complex reached design specifications. With this additional plant capacity and oil producing capability, the Simonette D3 field will make a major contribution to your Company's revenues in 1974 and, in particular, in the second half of the year, when the benefits of new oil and gas prices will be fully realized. A pressure maintenance project is scheduled to commence in 1974. Petrol's interest in the revenues from the Simonette D3 Unit is approximately 8.4%.

OIL PRODUCTION BY FIELDS (Thousands of Barrels)

ALBERTA	1973	1972	1971	1970	1969
Fenn	32	24	17	14	12
Mitsue	27	25	26	25	22
Pembina:					
Cardium	55	61	66	65	58
Belly River	48	22	19	15	15
Simonette	175	149	115	95	83
Swan Hills	3	5	6	6	7
Turner Valley	29	27	16	15	14
Other	9	12	8	6	7
	378	325	273	241	218
SASKATCHEWAN					
Instow	5	5	5	6	6
Other	6	5	5	4	3
	11	10	10	10	9
BRITISH COLUMBIA .	1	2	1	1	1
UNITED STATES	11	14	14	9	11
	401	351	298	261	239

GAS PRODUCTION BY FIELDS (Millions of Cubic Feet)

ALBERTA	1973	1972	1971	1970	1969
Ashmont	75	91	53	135	—
Ghost Pine	28	19	10	55	46
Gordondale	—	—	16	22	—
Hussar	13	90	72	—	—
Pembina	25	24	38	39	29
Simonette	414	366	259	203	97
Turner Valley	172	240	24	24	20
Other	16	15	11	4	—
	743	845	483	482	192
BRITISH COLUMBIA .	1	1	—	—	—
ONTARIO	—	—	—	—	10
SASKATCHEWAN	6	4	5	13	7
UNITED STATES	14	8	13	5	—
	764	858	501	500	209

Reserves

At December 31, 1973 total proven and probable additional reserves of crude oil and condensate, before deducting royalties, were estimated at 8.7 million barrels compared with 9.3 million barrels last year. Natural gas liquids (which are shown as separate figures this year) were estimated at 67,000 barrels (70,000 barrels last year). Natural gas reserves increased from 29.3 billion cubic feet in 1972 to 32.0 billion cubic feet in 1973 while sulphur reserves were relatively constant at 86,000 long tons in 1973 (89,000 long tons in 1972).

A summary of the Company's reserves as compiled by an independent consultant is shown in the accompanying tabulation:

Proven and Probable Additional Reserves December 31.

	1973	1972
Crude Oil—gross barrels	8,657,000	9,252,000
N G Liquids—gross barrels ...	67,000	70,000
Natural Gas—gross mcf	32,000,000	29,300,000
Sulphur—long tons	86,000	89,000

Exploration and Development

DECALTA INTERNATIONAL CORPORATION

The Company's Annual Report for 1972 made reference to "Decalta International Corporation", a U.S. corporation established by Petrol's parent. Your Company owns 15% share interest in this corporation (D.I.C.), which holds interests in the United States and other lands. Some of the activities of this corporation are reviewed below.

Texas (offshore)

Drilling is in progress on some of the blocks purchased at the June 19, 1973 lease sale in the offshore Texas Gulf Coast area. D.I.C. acquired interests in 11 blocks varying from 1.04% to 2.60% at a cost of \$7,200,000. Present plans call for at least four exploratory holes on each block to evaluate the hydrocarbon potential. D.I.C.'s share of the costs of this program is estimated at \$500,000. This exploratory drilling phase will determine the size and location of the development drilling platform for any commercial production indicated.

As of March, 1974 thirteen exploratory wells have been drilled and two are currently in progress. A number of blocks are offset by federal lands which will come up for sale in the near future. Under the provisions of joint operating agreements with several groups of companies D.I.C. is obligated to maintain confidentiality of drilling results for competitive reasons. Sales of federal lands have been indicated for the end of March and May 1974.

Indonesia

In Indonesia D.I.C. is participating along with its associates in a technical assistance contract issued by Pertamina, the Indonesian government-owned oil company. D.I.C.'s interest in this contract is 20%; the contract area covers 67,800 gross acres. A drilling rig is currently moving to drill the first of a three-well exploratory drilling program. D.I.C.'s share of the costs of the exploration phase of this project expected to be completed during 1974, is estimated at \$380,000.

Under the terms of the technical assistance contract, Pertamina pays all income tax and assigns 57.7% of the production to the contracting parties until recovery of all costs and 35% of the proceeds of production thereafter. No royalty is levied.

Guatemala

D.I.C. has agreed to take approximately 10% of the costs of drilling two offshore structures outlined by seismic work off the east coast of Guatemala to earn about 5% interest

in 611,500 acres. Depending upon the availability of drilling equipment, it is expected that the drilling of the first well will commence in mid-1974.

NORTHERN CANADA

Following the discovery of oil at Prudhoe Bay on the north slope of Alaska and subsequent discoveries of oil and gas on the Canadian Arctic coast and gas in the Arctic Islands of Canada, the geological basins of northern Canada have been re-assessed by the exploration companies operating in western Canada. In view of the increasing demand for oil and gas in North America, these areas have become a front line of exploration.

A consortium of 26 companies, known as Canadian Arctic Gas Study Limited, has filed an application with the Canadian government for the construction of a gas pipeline along the Mackenzie River valley. The feasibility of this pipeline will probably depend upon the availability of natural gas both from the Canadian Arctic and from Prudhoe Bay in Alaska. This matter is currently under discussion between the Canadian and United States federal governments. With this possible pipeline connection, Petrol is maintaining its land position in such areas including its holdings in the Mackenzie River valley and the Mackenzie River delta in the Northwest Territories and in the Arctic Islands.

NORTHWEST TERRITORIES

In the Northwest Territories, Petrol owns varying interests in 2,945,900 gross (121,600 net) acres and has options to earn varying interests in an additional 395,000 gross (9,900 net) acres. Major areas of interest in the Northwest Territories are reviewed below:

Mackenzie River Valley (Norman Wells to Camsell Bend)

In this region, Petrol owns varying interests, ranging from 1.25% to 15% in 1,912,000 gross (78,400 net) permit acres extending 228 miles along the Mackenzie River valley. Past exploration resulted in one oil discovery which, however, is not regarded as commercial until trunk pipeline facilities become available.

Tree River

During the winter season of 1972 - 1973, Petrol and associates participated in a 150 mile seismic survey program in the Tree River area under a seismic option agreement. The optioned lands under the agreement have been increased to 395,000 acres and an additional seismic survey of 98 miles commenced in late February, 1974. Petrol's 2.5% share of the \$350,000 estimated cost of the

new program will be offset by the recovery from another participating company of 50% of its 1972 - 1973 seismic costs.

Great Bear Lake

In this area Petrol owns a 3.75% interest in 562,000 gross (21,100 net) permit acres. Another company has undertaken to conduct and pay for an 80 mile seismic survey during February and March, 1974, over part of this property at an estimated cost of \$320,000 which will establish its right to earn, at its option, a 50% interest in 205,000 acres out of the total area of 562,000 acres by drilling a well in 1975. Options to earn a similar interest in the remaining lands for additional seismic and drilling work are included in the agreements.

Mackenzie River Delta

The discovery of gas and oil in the Mackenzie River delta has increased exploratory activities in this area and along the Arctic coastline. Near the Town of Inuvik, about 80 miles south of Taglu and Mayogiak, Petrol holds a 10% interest in 142,500 acres.

BEAUFORT SEA

Offshore to the northwest and northeast of the Mackenzie River delta, Petrol holds varying interests ranging from 1.2% to 10% in 628,000 gross (36,700 net) permit acres. Seismic surveys have been conducted over these properties. The latest discovery of oil and gas in the Imperial Adgo F-28 well, drilled on a man-made island in the Beaufort Sea, has improved the prospects in this area. However, drilling is not anticipated in deeper water in the Beaufort Sea for at least two, and probably three, years because of the technological difficulties involved.

The Federal Government has recently announced that agreement on rig design has been reached with two oil companies and that a marine environmental study involving both industry and government is already well advanced.

ARCTIC ISLANDS

In the Arctic Islands, extensive geophysical and drilling operations are being carried out by a large number of companies. Petrol's holdings in the Arctic Islands total 5,221,300 gross (128,400 net) permit acres.

Prince of Wales and Somerset Islands

The greatest part of Petrol's Arctic Island properties is in this area. Petrol owns an interest in 4,580,000 gross (103,500 net) permit acres (2.3% in 4,347,000 acres and

0.8% in 233,000 acres). Petrol has participated in an extensive seismic and magnetometer survey on part of this property. Attempts are being made to farm out this property for further seismic work and the drilling of prospects already outlined.

OTHER AREAS OF ACTIVE INTEREST

Alaska

In Alaska, Petrol currently owns 144,000 gross (1,900 net) lease acres. Most of these leases expire in 1974 unless drilling operations are commenced this year to extend such leases. Through a farm-out to a group of major oil companies, a portion of the leases will be maintained in force by the drilling of a well.

Newfoundland (Offshore)

In the Atlantic, offshore Newfoundland, Petrol holds a 5% interest in two acreage blocks consisting of 285,000 gross (14,300 net) permit acres and 886,000 gross (44,300 net) permit acres, and a 3.3% interest in various blocks totalling 460,000 gross (15,300 net) permit acres. Of great interest has been an announcement by the operator that evidence of hydrocarbons has been obtained at the Bjorni H-81 well and that the well would be re-entered during 1974 for testing and deepening. This well lies some 30 miles south southeast from the 285,000 acre block. We anticipate conducting a further seismic survey over these blocks during 1974.

NEGOTIATIONS IN PROGRESS

Western Decalta Petroleum Limited, Petrol's parent company is currently involved in negotiations with corporations and/or governments for concessions in several parts of the world. It is expected that Petrol will participate with the parent company to the extent that its resources permit, should applications by Decalta for oil and gas concessions be successful. Such participation by Petrol may be direct or more probably through its 15% equity position in Decalta International Corporation. The following areas are involved:

Kenya

Subject to the passing of an enabling legislation by the government, Decalta International Corporation (D.I.C.) and another company have taken a seismic option from two major companies. An offshore seismic program will be conducted and if the results are encouraging the option to drill a well to earn 50% of 1,200,000 acres can be exercised. D.I.C.'s share in this program is 50%.

Peru

Petrol has participated in an offshore group seismic program along 600 miles of the coastline of Peru in anticipation of a request for applications for offshore permits by Petroperu, the government-owned oil company. Petrol's share of the seismic program costs to date amounted to \$30,000. When applications are requested, Petrol will participate with other Canadian oil companies.

California (Offshore)

Preliminary geophysical and geological work has been done in the general area south of the Santa Barbara Channel in order to be in a position to bid on tracts which are expected to be put up for sale by the United States federal government.

Philippines

Negotiations with a number of Philippine companies are currently being conducted whereby D.I.C. will conduct a reconnaissance seismic program. If the results of this program are encouraging the option to conduct a detailed seismic program may be exercised. Following the detailed program, an option to drill to earn an interest in approximately 1,000,000 acres is available.

Acreage Holdings

At December 31, 1973 the Company owned varying interests in 11,897,000 gross acres equivalent to 450,000 net acres; comparative figures for 1972 were 11,659,000 gross acres and 437,000 net acres. During the year the Company increased its holdings in Alberta, primarily in the shallow gas areas in the south-central part of the Province. A summary of acreage holdings by area is shown in the statistical section of this report.

Drilling Activity

In 1973, Petrol participated in the drilling of 66 wells with an average interest of 3.8%. The drilling resulted in 26 gross (.8 net) oil wells, 11 gross (.4 net) gas wells and 29 gross (1.3 net) dry holes. Of the 66 wells, 55 were drilled in Alberta, 2 in British Columbia, 3 in Saskatchewan, 3 in the Northwest Territories, 1 in New Brunswick and 2 in the United States.

Income Statement

Net Income

Consolidated net income in 1973 was \$626,000, a gain of 27.8% over net income of \$490,000 in 1972. Earnings per common share amounted to 15.7¢ as compared with 12.3¢ earned in 1972.

Cash Flow

Cash flow from operations amounted to \$1,053,000, a 30.3% increase over 1972 at \$808,000. Cash flow per share for the comparative years were 26.3¢ and 20.2¢ respectively.

Revenues

Revenue from oil and gas sales amounted to \$1,611,000 in 1973, an increase of \$431,000 (36.5%) over last year. Net oil sales increased by \$401,000 (40.0%) to \$1,414,000. Improved prices for crude oil (\$258,000) and a higher volume of sales (\$143,000) accounted for the increase. Natural gas sales including liquids totalled \$177,000 (\$161,000 in 1972). Higher prices for these products (\$35,000) were partially offset by a lower volume of sales (\$19,000). Royalty revenues rose from \$6,000 to \$20,000, while interest and other income declined from \$52,000 to \$3,000. Gross income for 1973 and 1972 amounted to \$1,614,000 and \$1,232,000 respectively.

Charges Against Revenue

Total cash expenses amounted to \$561,000 in 1973 (\$424,000 in 1972) an increase of 32.1%. Production expenses increased by \$111,000 (35.0%) from \$317,000 in 1972 to \$428,000 in 1973. General and administrative expenses remained constant at \$69,000 while interest expense increased from \$38,000 to \$64,000.

Source and Use of Funds

During 1973, funds derived from operations totalled \$1,053,000; funds were also obtained from the sale of production payments (\$100,000) and a production bank loan (\$600,000). Expenditures included \$1,416,000 for exploration and development of which a major portion was spent for gas processing plant facilities; \$609,000 for the retirement of production payments and \$1,365,000 invested in an affiliated company, Decalta International Corporation. At the year end, Petrol had a working capital deficiency amounting to \$1,047,000.

Consolidated Statement of Income and Earned Surplus

For the Years Ended December 31, 1973 and 1972

	1973	1972
Net oil and gas sales	\$ 1,611,000	\$1,180,000
Interest and other income	3,000	52,000
	<u>1,614,000</u>	<u>1,232,000</u>
Deduct:		
Production expenses	428,000	317,000
General and administrative expenses ..	69,000	69,000
Interest expense	64,000	38,000
	<u>561,000</u>	<u>424,000</u>
Cash flow from operations	1,053,000	808,000
Depreciation and depletion ...	<u>433,000</u>	<u>318,000</u>
Income before equity in earnings of affiliated company	620,000	490,000
Equity in earnings of affiliated company (Note 2)	<u>6,000</u>	
Net income for the year (Note 5)	626,000	490,000
Earned surplus at beginning of year	<u>1,812,000</u>	<u>1,322,000</u>
Earned surplus at end of year .	<u>\$ 2,438,000</u>	<u>\$1,812,000</u>
Net income per common share .	15.7¢	12.3¢

Consolidated Statement of Source and Application of Funds

For the Years Ended December 31, 1973 and 1972

	1973	1972
Source of funds:		
Cash flow from operations ..	\$ 1,053,000	\$ 808,000
Sale of production payments	100,000	
Production bank loan	<u>600,000</u>	
Total funds provided	<u>1,753,000</u>	<u>808,000</u>
Application of funds:		
Additions to property and equipment	1,416,000	947,000
Retirement of production payments	609,000	483,000
Investment in affiliated company	<u>1,365,000</u>	
Total funds applied	<u>3,390,000</u>	<u>1,430,000</u>
Increase (decrease) in working capital	(1,637,000)	(622,000)
Working capital at beginning of year	<u>590,000</u>	<u>1,212,000</u>
Working capital (deficiency) at end of year	<u>\$(1,047,000)</u>	<u>\$ 590,000</u>

See accompanying notes.

Consolidated Balance Sheet

December 31, 1973 and 1972

ASSETS	1973	1972
CURRENT:		
Cash		\$ 154,000
Short term investments at cost which approximates market		600,000
Accounts receivable	\$ 89,000	66,000
Prepaid expenses	9,000	5,000
	<u>98,000</u>	<u>825,000</u>
REFUNDABLE DEPOSITS	1,000	1,000
INVESTMENT IN AFFILIATED COMPANY:		
Shares at cost plus equity in undistributed earnings since acquisition (Note 2)	1,371,000	
PROPERTY AND EQUIPMENT AT COST:		
Oil and gas properties less accumulated depletion of \$2,340,000 (1972-\$2,081,000)	4,021,000	3,829,000
Plant and equipment less accumulated depreciation of \$1,020,000 (1972-\$845,000)	1,619,000	828,000
	<u>5,640,000</u>	<u>4,657,000</u>
OTHER:		
Sundry investments at cost	2,000	2,000
	<u>\$7,112,000</u>	<u>\$5,485,000</u>

See accompanying notes.

Auditors' Report

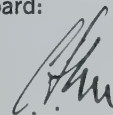
To the Shareholders of
THE PETROL OIL & GAS COMPANY, LIMITED.

We have examined the consolidated balance sheet of The Petrol Oil & Gas Company, Limited and its subsidiary companies as at December 31, 1973 and the consolidated statements of income and earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

the PETROL oil and gas company limited
and subsidiary companies

LIABILITIES	1973	1972
CURRENT:		
Bank overdraft	\$ 18,000	
Accounts payable and accrued charges	399,000	\$ 207,000
Due to parent company	728,000	28,000
	<u>1,145,000</u>	<u>235,000</u>
DEFERRED PRODUCTION INCOME (Note 4)	185,000	694,000
PRODUCTION BANK LOAN	600,000	
SHAREHOLDERS' EQUITY:		
Capital—		
Authorized—8,000,000 shares of no par value		
Issued—3,995,000 shares ..	2,744,000	2,744,000
Earned surplus (see statement page 15) ..	2,438,000	1,812,000
	<u>5,182,000</u>	<u>4,556,000</u>
	<u>\$ 7,112,000</u>	<u>\$5,485,000</u>

On behalf of the Board:



Director.



Director.

In our opinion these financial statements present fairly the financial position of The Petrol Oil & Gas Company, Limited and its subsidiary companies at December 31, 1973, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
February 19, 1974.

CLARKSON, GORDON & CO.
Chartered Accountants.

Notes to Consolidated Financial Statements

DECEMBER 31, 1973

1. Basis of consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The accounts of a subsidiary company operating in the United States are, for the purpose of consolidation, included on the basis that \$1 U.S. equals \$1 Canadian. Net assets so converted amounted to \$220,000.

2. Investment in affiliated company

During the year the Company acquired a 15% interest in the common and preferred shares of Decalta International Corporation. The remaining 85% is owned by the Company's parent, Western Decalta Petroleum Limited and its subsidiaries, and the Company is accounting for the investment as a corporate joint venture.

Details of the investment are:

15,000 common shares	\$ 15,000
13,500 preferred shares	1,350,000
Equity in the earnings since the date of acquisition	6,000
	<u>\$1,371,000</u>

The financial position of Decalta International Corporation at December 31, 1973 is summarized as follows:

Working capital	\$ 311,000
Property and equipment at cost less accumulated depreciation and depletion of \$169,000	8,832,000
	<u>\$9,143,000</u>

Share capital issued and outstanding	
100,000 common shares	\$ 100,000
90,000 preferred shares	9,000,000
Earned surplus	43,000
	<u>\$9,143,000</u>

The accounting policies followed by Decalta International Corporation are essentially the same as those followed by the Company.

3. Accounting practice

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves of oil and gas.

Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful life of these assets.

4. Deferred production income

During the year a production payment, representing a portion of the Company's interest in future production

from certain oil lands, was sold for \$100,000 cash. Production from the interest in the oil and gas reserves of the lands covered by production payments will revert to the Company after repayment of the principal amounts. Due to the short term nature of these financing arrangements, all of which are expected to be retired within three years, proceeds from the sales of the production payments have been deferred in the accounts and are reflected in income as the related oil and gas reserves are produced and sold. Repayments during the year on production payments sold in the current and prior years amounted to \$609,000.

5. Income taxes

For Canadian income tax purposes the companies are entitled to claim deductions for drilling, exploration and lease acquisition costs incurred in amounts which exceed the related depletion charges in the accounts and accordingly no income taxes are payable for the year. The Company, in accordance with the general practice in the oil and gas industry, makes no provision for deferred income taxes in respect of such excess deductions since it believes that tax allocation accounting, as recommended by the Canadian Institute of Chartered Accountants, is not appropriate for costs of this nature.

If the tax allocation basis had been followed with respect to drilling, exploration and acquisition costs, deferred taxes would have been provided in 1973 in the amount of \$215,000 (5.4¢ per share) and in 1972 in the amount of \$165,000 (4.1¢ per share) and net income for these years would have been reduced accordingly. The accumulated income tax deferrals for current and prior years would have been approximately \$1,140,000 at December 31, 1973.

Various provincial securities commissions in Canada have recently questioned the appropriateness of not following tax allocation accounting with respect to drilling, exploration and lease acquisition costs and the industry has undertaken to prepare and submit a background study to the commissions by February 1974. The commissions have indicated that unless, as a result of the study, they are satisfied with the basis for departing from such procedures, companies in the oil and gas industry should be prepared to adopt tax allocation accounting effective in 1974 in respect of these costs.

6. Production bank loan

The production bank loan (evidenced by a demand note) is secured by assignment of the Company's interest in certain oil and gas producing properties and is repayable out of the proceeds of production from such properties.

Summary of Acreage Holdings

Area:	Petroleum & Natural Gas Leases		Reservations, Licenses Permits(*)		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	642,900	47,400	160,300	7,500	803,200	54,900
Alaska	144,000	1,900	—	—	144,000	1,900
British Columbia	24,300	1,000	29,600	9,900	53,900	10,900
Hudson Bay	—	—	308,300	15,400	308,300	15,400
Maritimes (offshore)	—	—	1,630,200	73,900	1,630,200	73,900
New Brunswick	22,400	1,700	—	—	22,400	1,700
Northern Canada:						
Northwest Territories	11,400	600	2,934,500	121,000	2,945,900	121,600
Beaufort Sea	—	—	628,000	36,700	628,000	36,700
Arctic Islands	—	—	5,221,300	128,400	5,221,300	128,400
Saskatchewan	62,900	3,500	—	—	62,900	3,500
United States	4,600	100	4,800	300	9,400	400
Overseas	—	—	67,800	700	67,800	700
	912,500	56,200	10,984,800	393,800	11,897,300	450,000

*Convertible into leases to the extent of approximately 50%

ANALYSIS OF GROSS INCOME

(Thousands of dollars)

	1973	1972	1971	1970	1969
Crude Oil	\$1,414	1,013	860	689	628
Natural Gas					
Liquids	50	48	5	5	4
Natural Gas	127	113	72	69	39
Royalty Revenue ..	20	6	6	5	6
Net Oil and Gas					
Sales	1,611	1,180	943	768	677
Interest and					
Other Income ..	3	52	56	5	15
	\$1,614	1,232	999	773	692

EXPENDITURES FOR FINDING AND DEVELOPING

(Thousands of dollars)

	1973	1972	1971	1970	1969
Land and Rentals \$	137	142	315	64	220
Geological and Geophysical	37	149	57	28	30
Non-productive Drilling	133	149	76	55	90
Productive Drilling ...	114	65	70	34	85
Productive Equipment	995	442	144	101	271
	\$1,416	947	662	282	696

Ten Year Statistical Review

INCOME	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
Net oil and gas sales	\$1,611	1,180	943	768	677	549	561	563	528	533
Interest and other income	3	52	56	5	15	17	9	8	6	10
Gross income	1,614	1,232	999	773	692	566	570	571	534	543
EXPENSES										
Production	428	317	238	195	167	152	162	166	159	160
General and administrative	69	69	72	68	56	48	42	40	38	37
Interest	64	38	45	13	12	15	30	30	15	—
Total	561	424	355	276	235	215	234	236	212	197
CASH FLOW FROM OPERATIONS	1,053	808	644	497	457	351	336	335	322	346
Per share—¢	26.3	20.2	16.1	12.4	11.4	8.8	8.4	8.4	8.0	8.6
DEPRECIATION AND DEPLETION	433	318	233	199	186	162	172	179	177	147
NET INCOME ON OPERATIONS	620	490	411	298	271	189	164	156	145	199
Gain on sale of securities	—	—	—	—	—	—	—	—	22	9
Equity in earnings of affiliated company	6	—	—	—	—	—	—	—	—	—
NET INCOME	626	490	411	298	271	189	164	156	167	208
Per share (exclusive of special gains)—¢	15.7	12.3	10.3	7.4	6.8	4.7	4.1	3.9	3.6	5.0
WORKING CAPITAL (DEFICIENCY)	(1,047)	590	1,212	1,028	(191)	306	243	216	193	150
EXPENDITURES										
Exploration and development ...	1,416	947	662	282	696	227	229	462	725	527
PRODUCTION										
Oil—net barrels	401	351	298	261	239	195	201	205	188	191
NGL—net barrels (2).....	26	30	—	—	—	—	—	—	—	—
Gas—net mcf	764	858	501	500	209	180	116	27	—	—
RESERVES (3)										
Oil—gross barrels	8,657	9,252	8,884	8,232	8,594	8,967	8,807	8,805	7,786	7,458
NGL—gross barrels (2)	67	70	—	—	—	—	—	—	—	—
Gas—gross mcf	32,000	29,300	23,800	22,900	19,800	17,300	18,300	4,900	5,200	3,700
LAND HOLDINGS										
Gross acres	11,897	11,659	11,518	11,786	12,713	4,852	2,947	2,842	471	450
Net acres	450	437	477	487	630	394	324	316	144	147
SHARES OUTSTANDING	3,995	3,995	3,995	3,995	3,995	3,995	3,995	3,995	3,995	3,995

Notes

(1) The above statistics are for The Petrol Oil & Gas Company, Limited and its wholly-owned subsidiaries. With the exception of per share figures, amounts are in thousands.

(2) Prior to 1972, natural gas liquid statistics not shown as separate item.

(3) Includes proven and probable additional reserves.

TRANSFER AGENTS

Crown Trust Company
302 Bay Street,
Toronto 101, Ontario

HEAD OFFICE

36th Flr., Toronto-Dominion Centre,
Toronto, Ontario

EXECUTIVE OFFICE

630 - 6th Avenue S.W.,
Calgary, Alberta, Canada T2P 0T2
Phone (403) 269-5551

LISTING

Toronto Stock Exchange

SUBSIDIARY COMPANIES

The Petrol Oil and Gas Corporation
Petrol Mineral Enterprises Ltd.



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